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SUBJECT: CONTINUED GOOD GNP GROWTH RATE FOR TURKISH ECONOMY IN 1976

REF: ANKARA 9259

SUMMARY: WHILE CONTINUING TO STRUGGLE WITH HIGH
INFLATION, RISING UNEMPLOYMENT, AND GROWING EXTERNAL DEFICITS,
THE TURKISH ECONOMY STILL SHOWED REAL DYNAMISM IN 1976.
FIGURES RELEASE RECENTLY BY STATE INSTITUTE OF STATISTICS INDICATE
THAT REAL ANNUAL GROWTH RATE OF GNP FOR 1976, BASED ON FIRST
NINE MONTH FIGURES, WILL BE ABOUT 7.2 PERCENT. THE 1976
FIGURE, THOUGH BELOW FIVE-YEAR PLAN PROJECTIONS, MEANS THAT
IN SPITE OF INTERNAL PROBLEMS, INTERNATIONAL RECESSION AND OPEC
OIL PRICE INCREASE, TURKISH ECONOMIC GROWTH IN REAL TERMS SINCE
1971 HAS AVERAGED OVER 7 PERCENT PER YEAR. END SUMMARY.

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2. THE THIRD FIVE YEAR PLAN (1973-77) TARGETED REAL ANNUAL
GROWTH IN GNP AT 7.9 PERCENT. ALTHOUGH THIS TARGET HAS
NOT BEEN MET, REAL GROWTH WAS 5.4 PERCENT IN 1973, 7.4 PER-
CENT IN 1974, 7.9 PERCENT IN 1975 AND A PROVISIONAL 7.2 PERCENT
FOR 1976.

3. TOTAL GNP IN CURRENT MARKET PRICES IN 1976 IS ESTIMATED AT TL 650 BILLION (\$39.3 BILLION) AS COMPARED WITH TL 535 BILLION (\$32.5 BILLION) IN 1975, AN INCREASE OF 22 PERCENT. GNP IN FIXED 1968 PRICES, ON OTHER HAND, WAS TL 181 BILLION (\$11 BILLION) IN 1975 AND TL 195 BILLION IN 1976 (\$11.9 BILLION).

4. AGRICULTURAL GROWTH IN 1976 WAS NOT AS GOOD AS IN 1975, BUT DID EXCEED PLAN TARGETS OF 3.8 PERCENT PER YEAR. REAL GROWTH IN 1976 WAS 3.9 PERCENT AS OPPOSED TO 8.9 PERCENT IN 1975.

5. GROWTH IN THE INDUSTRIAL SECTOR IN 1976 WAS BETTER THAN IN 1975 AND APPROACHED THE PLAN TARGET OF 11.3 PERCENT PER YEAR. REAL GROWTH IN INDUSTRY IN 1975 WAS 9 PERCENT (8.8 PERCENT IN MANUFACTURING, 5.5 PERCENT IN MINING AND 16.8 PERCENT IN ELECTRICITY, GAS AND WATER). 1976 REAL GROWTH IN INDUSTRIAL SECTOR WAS 10.7 PERCENT (10.9 PERCENT IN MANUFACTURING, 1.6 PERCENT IN MINING AND 17 PERCENT IN ELECTRICITY, GAS AND WATER).

6. TURKEY'S DEVELOPMENT STRATEGY SINCE 1963, EMBODIED IN THREE FIVE-YEAR PLANS, HAS BEEN TO PROMOTE RAPID INDUSTRIALIZATION AS A MEANS OF LESSENING DEPENDENCE ON AGRICULTURAL SECTOR. EMPHASIS ON INDUSTRIAL INVESTMENT IS PARTICULARLY APPARENT WHEN WE EXAMINE SECTORAL DISTRIBUTION OF FIXED INVESTMENT OUTLAY. INVESTMENT SPENDING IN AGRICULTURE AS SHARE OF TOTAL INVESTMENT SPENDING FELL FROM 14.9 PERCENT UNDER 1963-67 PLAN TO 12.2 DURING SECOND PLAN TO APPROXIMATELY 11.5 DURING THIRD PLAN (1973-77). INDUSTRIAL INVESTMENT SPENDING ON OTHER HAND ROSE FROM 31.1 PERCENT IN 1963-67 TO 37.1 PERCENT DURING 1968-72 TO APPROXIMATELY 45.4 PERCENT UNDER CURRENT PLAN.

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IMATELY 45.4 PERCENT UNDER CURRENT PLAN.

7. NEVERTHELESS, SECTORAL DISTRIBUTION IN GDP IN CURRENT PRICES, WHICH SHIFTED CONSIDERABLY FROM 1960 TO 1970, HAS REMAINED RELATIVELY CONSTANT OVER THE PAST FIVE YEARS. AGRICULTURE CONTRIBUTED 37.6 PERCENT IN 1960, 27.1 PERCENT IN 1970, 26.3 PERCENT IN 1975 AND 26.1 PERCENT IN 1976. INDUSTRIAL CONTRIBUTION (MANUFACTURING, MINING AND UTILITIES) WENT FROM 17.2 PERCENT IN 1960, TO 21.6 PERCENT IN 1970, 21.8 PERCENT IN 1975 AND 21.4 PERCENT IN 1976. THE SHARE OF SERVICES, BROADLY DEFINED, HAS INCREASED STEADILY FROM 45.2 PERCENT IN 1960, TO 51.3 PERCENT IN 1970, 51.9 PERCENT IN 1975 AND 52.5 PERCENT IN 1976. (NOTE: MANY FACTORS COULD ACCOUNT FOR DIFFICULTY IN INCREASING SHARE OF INDUSTRY IN GNP: RELATIVELY LOW PRODUCTIVITY OF TURKISH INDUSTRY, AT LEAST TWO EXCEPTIONALLY GOOD AGRICULTURAL HARVESTS, AND ESPECIALLY THIRD PLAN EMPHASIS ON HEAVY INDUSTRIAL PROJECTS WHICH TAKE SEVERAL YEARS TO COME ON STREAM.)

8. COMMENT: TURKEY'S SUCCESS IN MAINTAINING A GOOD GROWTH RATE IN CONTEXT OF SERIOUS INTERNAL AND EXTERNAL ECONOMIC PROBLEMS MERITS COMMENDATION. IT IS BECOMING INCREASINGLY APPARENT, HOWEVER, THAT MAINTAINING THIS GROWTH RATE WILL REQUIRE MORE NATIONAL SAVINGS AND EXTERNAL BORROWINGS IN THE FUTURE. DURING THE PAST THREE YEARS, NATIONAL SAVINGS AS A PERCENTAGE OF GNP FELL FROM 20.3 IN 1973 TO 17 IN 1975. THE SAVINGS DECLINE HAS RESULTED IN PRIMARILY FROM A HIGH RATE OF INFLATION, CURRENT BUDGETARY EXPENDITURES WHICH HAVE REDUCED PUBLIC SAVINGS, AND THE WEAKENING OF WORKERS REMITTANCES, WITH THE WIDENING GAP BETWEEN DOMESTIC SAVINGS AND INVESTMENT DURING 1973-1976, THERE HAS BEEN AN INCREASED RELIANCE ON EXTERNAL SAVINGS. EXTERNAL SAVINGS (DEFICIT ON CURRENT ACCOUNT) WAS 0.3 PERCENT AS A PERCENTAGE OF GNP IN 1974, BUT ROSE TO 4.4 PERCENT IN 1975 AND IN 1976. THE 1977 ANNUAL PROGRAM ESTIMATES THAT THE DEFICIT ON CURRENT ACCOUNT WILL RISE TO 4.8

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PERCENT OF GNP.

9. THE HIGH TURKISH GROWTH RATE IN GNP DURING THE PAST FEW YEARS IS SEEN BY INTERNATIONAL BANKERS AS A MAJOR FACTOR IN THEIR WILLINGNESS TO CONTINUE TO FINANCE TURKISH BOP DEFICIT. IT IS NOT SELF-EVIDENT, HOWEVER, THAT GOT REALIZES THAT FINANCING INVESTMENT DRIVE WITH SHORT-TERM CAPITAL INFLOWS IS TEMPORARY MEASURE, AT BEST, AND THAT IT MUST USE TIME GAINED FROM SHORT-TERM BORROWINGS TO OVERHAUL DOMESTIC TAX AND SAVINGS SYSTEMS TO GENERATE INTERNALLY MORE INVESTMENT CAPITAL. JUDGED BY PAST PERFORMANCE AND CONSIDERING MEDIUM-TERM ASSETS OF ECONOMY, TURKEY HAS THE POTENTIAL FOR CONTINUED RAPID GROWTH. IF IT IS TO REALIZE ITS POTENTIAL, HOWEVER, WITHIN GOALS OF REASONABLE PRICE STABILITY AND WITHOUT EXCESSIVE RELIANCE ON FOREIGN BORROWING, IT IS OBVIOUS THAT MORE EMPHASIS MUST BE GIVEN TO IMPROVING DOMESTIC RESOURCE MOBILIZATION AND TO MANAGEMENT OF BALANCE OF PAYMENTS.

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